

The Secret to Pricing Your Home to Sell 7/07

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Contrary to popular belief, when selling your home its value is determined by one thing and one thing only - what a qualified buyer is willing to pay for it. No more and no less. Sure, many sellers will argue that their home has an insurance replacement value, or an appraised value, or a tax assessed value, but unless your insurance agent, your banker, or your tax assessor is willing to write you a check for the home - guess what? None of that matters. A home without a buyer has no value in the market place. Sure it might have a value to you the seller, and it might have a value to your banker, and to your insurance agent, and to your appraiser. But none of these people are buyers.

So here is the secret to pricing your home to sell - It's not what you think the home is worth that matters, it's what a reasonable buyer will think your home is worth that will ultimately determine if your home will sell.

Now you maybe thinking - *Hey wait, if I left it up to a buyer, they would pay me as little as possible for my home.* True, they would. But in the real world every buyer knows that you, the seller, have no obligation to sell your home at any price. To purchase your home the buyer will have to make you an offer you can't or won't refuse. One that will motivate you to pack up your Ken and Barbie collection, hire a local mover, and wave good bye to a home full of memories.

But here-in lies the trap that many sellers fall into (myself included), which is the mistaken idea that we can hold out for an inflated price and eventually the market will come to us. Wrong! Buyers are under no obligation to buy any particular home, and no amount of marketing, open houses, websites, or signage will motivate a buyer to purchase an overpriced home. Why? Because they can buy one of your neighbors homes for less! This reveals one of the most important considerations in pricing your home - Price VS Time.

Understanding Price VS Time

The age old dilemma that has faced buyers and sellers since the dawn of private property rights is a simple question: *What is more important price or time?* Believe it or not this conundrum underlies and controls every sellers decision to sell, and every buyers need to complete a purchase. For sellers this boils down to the need to sell within a set time frame or instead to hold out for the best possible price, and as you might guess, for buyers it's the need to buy within a set time frame or to purchase a home for the lowest possible price.

A seller who would like to sell for top dollar should be prepared to potentially wait longer for a buyer willing to pay a premium price. Like trying to sell ice during December, a seller might have to give the stuff away just to get rid of it, but if they wait long enough, say until mid-August when temperatures crest over 100 degrees suddenly that same ice can have real value. On the flip side, a seller who needs to sell quickly, and doesn't have time to wait, should expect to discount their price somewhat because of the limited time they have to expose their home to the market.

What's the difference? Timing!

Buyers are in the same boat. A buyer who has the luxury of shopping for a home over a long period of time can probably wait to find a bargain, while another buyer who must buy a home in the next few weeks will probably be willing to pay a premium. Again it boils down to price vs time. So you might ask yourself what is your highest priority - *Selling quickly or selling for a higher price?*

To be honest when I pose this question to my own clients they often smile coyly and then answer - *I want both!* The funny thing is that they aren't kidding! This sticky situation often reminds me of one of my first jobs after graduating high school, which was working graveyard at a local lumber mill. Like clock work every night, the foreman would come by to monitor my production. We called him Perry, which could have been his last name or his first name because he never clarified it. Over the roar of the machinery Perry would cup his hands together and yell "You need to put out more wood!" Finally after an especially tough day, I looked him back in the eye, and yelled back "Do you want quantity or quality?" Throwing his yellow hard hat down on the concrete floor and then kicking it for emphasis he snarled back "I want both!"

Like Perry, most of my clients want their cake with the icing generously slathered on top. Because of this, many homeowners will attempt to put the responsibility of getting both top dollar and fast sale on the back of their hired gun, the real estate agent. The result can be summed up in one word - frustration. Why? Because no matter how much a seller yells, screams, and kicks a real estate agent, they don't do miracles. This is why successful sellers understand that while a real estate agent's job is to provide marketing, expert advice, and negotiating services, in the end they don't own the property. They don't make the final decisions on pricing. The seller does, and ultimately the seller's asking price will in large part determine how slowly or quickly the home will sell.

To frame this discussion in a different way, consider what you will do should you arrive luggage in hand at the end of your listing period and the home has not yet sold. At that point are you more likely to give it a little more time or adjust your price? I know - *Neither, I'll just fire the agent!* To be honest, this is exactly what many sellers' do, they fire their agent and reboot the marketing. Does it work? Sometimes it does, but often these sellers end up three months later in the same slow boat to nowhere. Successful sellers on the other hand take ownership of their pricing decisions by making a clear decision about which is more important to them, selling quickly or selling for top dollar.

Successful sellers have learned that to price their home accurately means they

need to think like a buyer, they need to get inside a buyers skin and look at the world through a buyers eyes. For instance, imagine for a minute that you are moving to another area of the country, to a city that you are completely unfamiliar with. If you were faced with buying a home in strange city what would be your first step?

If you're like most buyers you would probably start online by viewing listings at websites like www.realtor.com or www.yahoo.com/realestate to get a general feel for local home prices. Next you might narrow your search down to a specific community or neighborhood by comparing utility costs, school reports, and crime statistics with other online tools like www.homefair.com or www.neighborhoodscout.com. Feeling good about your findings you might then venture out into the real world to begin viewing homes in person.

As a typical internet empowered real estate buyer you will look at an average of nine homes over eight weeks with the assistance of a real estate professional. By the end of your journey, like many buyers, you become so knowledgeable about the market that by the last showing you are able to guess, with reasonable accuracy, each homes listing price before your agent can even tell you.

So what happened here? As a buyer you went from a blank slate, with no impression of the market to having the ability to predict listing prices. A big leap sure, but this description is exactly what most buyers' experience. But this is only the build up, the next step for buyers who have found their dream home is to review a Comparative Market Analysis.

A Comparative Market Analysis is a report that compares a specific home, often called the "subject home" with other homes in a specific neighborhood. This analysis is then used to provide an anticipated sales price or price range for the subject property. Although not formally called an appraisal, the report provides a similar function by giving home buyers and home sellers a clear understanding of the market data that might affect their opinion of value. To learn more about using a CMA to help price your home talk to your local REALTOR®.

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